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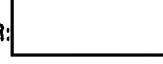
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25X1

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SUMMARY

25X1

SOUTHEAST ASIA

2. General Collins reports on situation arising from sects' "ultimatum" to Diem (page 3).

SOUTH ASIA

3. Pakistan faces serious foreign exchange deficit (page 4).

NEAR EAST - AFRICA

4. Soviet ambassador friendly in discussing Turkish-Iraqi pact with Iranian leaders (page 5).

25X1

WESTERN EUROPE

6. Faure asks rapid convocation of working group to prepare for East-West talks (page 6).

25X1

25X1



SOUTHEAST ASIA

2. General Collins reports on situation arising from sects' "ultimatum" to Diem:

25X1A

Diem's position in his struggle with the sects has been greatly weakened by the adherence of Cao Dai generals Phuong and The to the "united front," according

to General Collins. Collins believes the sects will continue pressure on the political plane for the next few days, but that incidents in the areas controlled by the sects, as well as possible attempts at civil demonstrations in Saigon, may also be expected.

An economic blockade of Saigon is a possible tactic, but Collins believes the sects will be deterred by knowledge that the French would act to break it.

Comment: In their "ultimatum" to Diem on 20 March, the sect leaders threatened an "appeal to the people" if he did not reconstitute his government by 25 March. They probably now feel compelled to institute some sort of action beyond the issuance of press releases.

Generals Phuong and The, whose signatures were included on the "ultimatum," had, as the result of sizable bribes, refrained from earlier antigovernment activity.

SOUTH ASIA

3. Pakistan faces serious foreign exchange deficit:

Pakistan's foreign exchange earnings for the year ending 31 March will be about \$35,000,000 less than previously believed. The gap between foreign exchange earnings and imports will therefore be over \$125,000,000 for that year, according to the latest official Pakistani estimates. Reduced foreign exchange earnings are expected to continue into fiscal 1956 and 1957, thereby increasing the deficits for those years above previously anticipated levels.

In view of current trends in Pakistan's export trade, characterized principally by a sharp reduction in cotton exports, the American embassy and foreign operations mission believe the Pakistani figures are not overly pessimistic.

Comment: The Pakistani government, which has just emerged from a five-month constitutional crisis, would be seriously embarrassed if public attention now became focused on the critical economic situation.

This situation will not be significantly improved until the fluctuations in Pakistan's income resulting from unexpected changes in world prices and demand for its two major export commodities, jute and cotton, can be offset by more stable income from industries which are still in an incipient stage of development.

NEAR EAST - AFRICA

4. Soviet ambassador friendly in discussing Turkish-Iraqi pact with Iranian leaders:

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Soviet ambassador Lavrentiev in Tehran, who had been insistently seeking an audience with the Shah, was received by Foreign Minister Entezam on 20 March

and later by the Shah. Lavrentiev concentrated his comments on rumors of Iran's adherence to the Turkish-Iraqi pact. He stated that the Soviet government would consider Iran's adherence to the pact an unfriendly act and asked why it would consider joining "an aggressive military bloc which threatens Soviet security." The ambassador was friendly, however, employed no threats, and did not mention the Soviet-Iranian treaties of 1921 and 1927. He also said, in answer to a question, that Soviet ratification of the border and financial agreements should not take much time.

Comment: Iranian government leaders have been greatly concerned over Soviet reactions to indications that Iran was giving favorable consideration to joining the Turkish-Iraqi pact. Their ultimate decision, however, is unlikely to be affected by the ambassador's approach.

Soviet propaganda attention to Iran during the past week reached its highest point since mid-October 1954 and has contained pointed references to article 3 of the 1927 Soviet-Iranian treaty. This article provides that each party agrees not to take part in political alliances directed against the territory, integrity, independence and sovereignty of the other party. Lavrentiev's approach probably was intended to weaken the strong reaction of Iranian officials to Soviet propaganda which was evidenced earlier this month.

25X1

WESTERN EUROPE

6. Faure asks rapid convocation of working group to prepare for East-West talks:

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French premier Faure on 22 March handed the American chargé and the British ambassador in Paris an aide-memoire calling for rapid convocation of a working group to prepare for talks with the USSR. The note states that Faure undertook a moral commitment to work for early East-West talks when he pressed for prompt and unconditional ratification of the Paris agreements by the Council of the Republic.

Faure stated that he envisaged initially only a tripartite group, excluding West Germany. He thought an agreed approach to the USSR should be made as soon as possible, since some Frenchmen are still thinking in terms of a conference in May as was proposed by Mendes-France.

Comment: Such a tripartite study group was suggested by the Mendes-France government in January, but the proposal was sidetracked during the government crisis the following month. Temporary exclusion from the working group would annoy the West Germans, but they would probably ultimately be included. It is likely that this would be acceptable to Chancellor Adenauer. London has favored including Bonn in any such discussions.

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Next 1 Page(s) In Document Exempt

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